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Plan to split banks 'will hurt recovery'

Lenders claim Vickers's new ring-fence rules will damage exports and hold back growth

Iain Dey Published: 20 October 2013

The British Bankers' Association has written to the Treasury with a list of concerns (Bloomberg)

NEW laws to split high street branches from the "casino" of investment banking have been botched by the Treasury and could jeopardise the economic recovery, big banks claim.

In a letter to the Treasury, the British Bankers' Association (BBA) says the detail of the ring-fencing rules has inadvertently outlawed many basic products needed by small firms to trade overseas.

The ring-fenced banks handling exports for Britain's small and medium-sized businesses would be barred from providing many forms of trade finance.

Nor would the new, simpler banks be able to offer their customers the most basic form of foreign exchange contract, the banks claim.

The BBA letter, addressed to Sajid Javid, the financial secretary to the Treasury, claims proposed legal restrictions on the ring-fenced banks are so tight that it may not even be possible for them to take out buildings insurance on their head offices or branches.

Anthony Browne, chief executive of the BBA, said: "The government wants Britain to have an export-led recovery, but as currently drafted these rules could undermine that.

"We want the Treasury to look again at the proposals. The industry fully supports ring-fencing but we need to get the details right to ensure banks can continue to support businesses that are the engine room of the British economy."

The legislation is part of the Financial Services (Banking Reform) Bill, which is passing through the House of Lords. It implements the recommendations of Sir John Vickers' Independent Commission on Banking, which advised creating distance between ordinary depositors and high-stakes global finance.

Vickers made clear in his report that the new, simplified high street banks should still be able to finance trade and offer basic derivatives to protect against interest rate and currency moves.

The Treasury has narrowed down the types of contract that can be offered, blocking many products that are widely used by small firms. It would no longer be possible for banks to offer standby letters of credit, for example.

Currency option contracts are also barred by the small print of the new rules, though swaps — typically more expensive — are permitted.